



European initiatives on commodity derivatives markets

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FAO event on
Food price volatility and the role of speculation
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Focus on the agri-food sector

Analysis on agricultural markets

Prices and Volatility

EC Communications on

Food prices/Raw materials

Policy and legislative developments

ESMA, EMIR, MIFID, MAD...

Summary of DG AGRI analysis

- ***2007/08 food crisis***

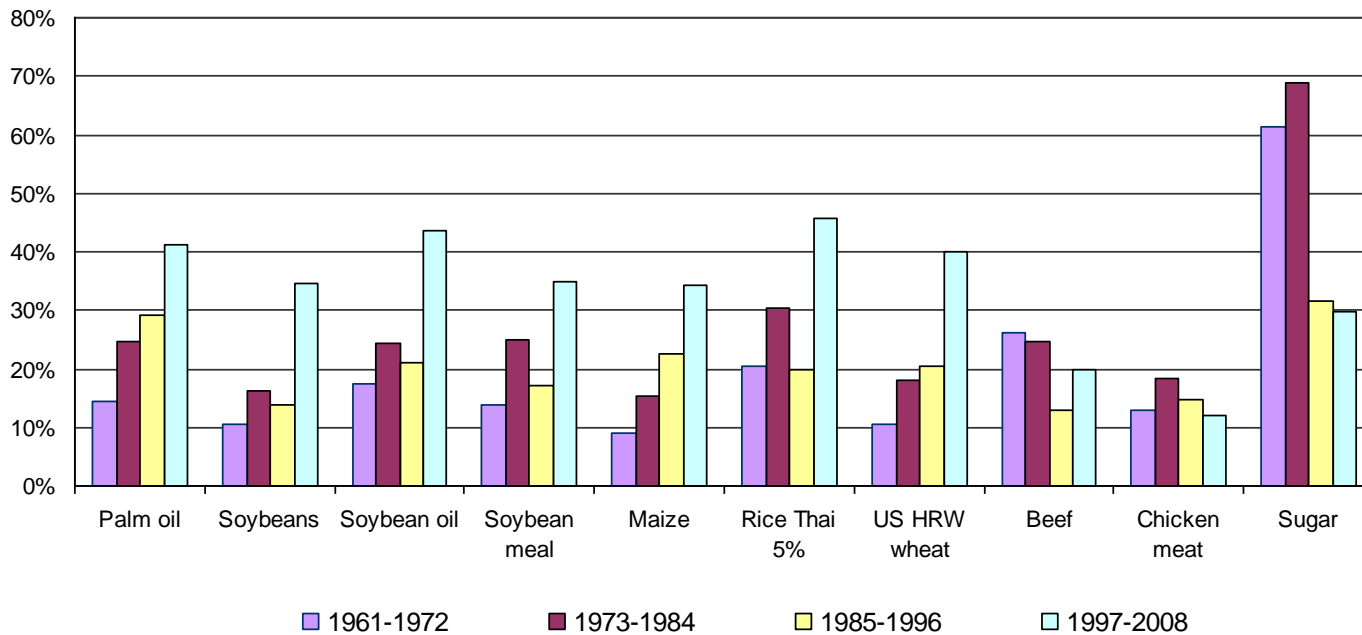
Combination of supply and demand developments, exacerbated by economic and policy factors

Factors specific to financial markets might have amplified price changes

- ***2011 update " High commodity prices and volatility"***

http://ec.europa.eu/agriculture/analysis/tradepol/commodityprices/market-briefs/01_en.pdf

Coefficient of variation for selected products, long-term price series



The analysis shows

- ***Price volatility higher in recent periods*** for most products, with the exception of beef, poultry, sugar (higher in the 70s, NB data analysed up to 2008)
- ***Increase in EU price volatility sometimes higher than increase at world level*** (CAP reform process improving market orientation)
- ***Co-movement across commodity markets***

Food prices/chain

Communications of the European Commission

- Tackling the challenge of **rising food prices**
COM(2008) 321 of 20/5/2008
- **Food prices** in Europe
COM(2008) 821 of 9/12/2008
- A better functioning **food supply chain** in Europe
COM(2009) 591 of 28/10/2009
+ Accompanying working documents (1 on derivatives)
http://ec.europa.eu/economy_finance/articles/structural_reforms/article16028_en.htm

Issues about derivatives

- *Strong debate on excessive speculation in the US, including policy and regulatory initiatives*
- *No major problem of excessive speculation or lack of convergence on EU futures markets*
- *But some issues*
 - Activity on EU futures, options and OTC increases, so is volatility
 - Differences in regulatory approaches: EU-US, within EU. Risk of regulatory arbitrage.
 - Markets are “global

Commission working document on ag. commodity derivatives
http://ec.europa.eu/economy_finance/publications/publication16071_en.pdf

For a better functioning EU food chain

- ***Prices in the EU: Issues about***
 - volatility
 - transmission of changes along the food chain
 - transparency
- *Need to improve the oversight and overall transparency of agricultural commodity derivatives*
- *Futures as a tool to cope with price volatility for **price discovery and hedging***

Main initiatives relating to derivatives

- ***Creation of European Securities Market Authority (ESMA)***
- ***Communication « tackling the challenges in commodity markets and on raw materials »***
COM(2011) 25
- ***Regulation for Over The Counter trading (EMIR)***
- ***Review of the market in financial instrument directive (MIFID)***
- ***Review of market abuse directive (MAD)***

European Market Infrastructure Regulation

- *Commission proposal in September 2010*
 - *Mandatory central clearing for OTC derivatives*
 - *Reported to trade repositories*
- *Regulation adopted in 2012*

Market Abuse legislation

- *Proposal in October 2011: The review of the Market Abuse Directive aims to clarify what trading in commodity markets constitutes abuse, and to ensure that all venues and transactions where abusive practices can occur are properly covered under pan-EU rules;*
- *In co-decision process (Parliament, Council)*

MiFID review

- *Proposal in October 2011*
- *More robust and efficient market structures*
- *Take into account technological innovation*
- *Increase transparency*
- *Reinforce supervisory powers and a stricter framework for commodity derivatives markets*
- *Stronger investor protection*
- *In co-decision process*

MiFID on commodity derivatives

- *Extension of appropriate transparency and reporting requirements to all trading in commodity derivatives*
- *Introduction of position reporting obligations by categories of traders defined at EU level*
- *Position limits or alternative arrangements with equivalent effect applied to prevent market abuse, support orderly pricing and settlement conditions*

International context

- *Volatility high on international agenda*
- *EU actively contributes (e.g. G-20 work streams)*
- *EU initiatives in line with G20 principles*